Capital Improvements Plan: *FY 2003 – FY 2008*

Overview

The District of Columbia's Capital Improvements Program (the "Capital Program") comprises the finance, acquisition, development and implementation of permanent improvement projects for the District's fixed assets. Such assets generally have a useful life exceeding three years and cost more than $250,000. The Capital Improvements Plan (CIP) document is a comprehensive, annually updated, six-year plan for the development, modernization or replacement of city-owned facilities and infrastructure. The CIP consists of the appropriated budget authority request for the upcoming fiscal year and projected funding/expenditure plans for the following five years. In most instances, the major portion of capital authority goes toward improvements or applicable activities associated with streets, bridges, government facilities, public schools, and recreational projects.

The CIP is an important planning and management resource. It analyzes the relationship of projects in the capital budget to other developments in the District. It also describes the programmatic goals of the various District agencies and how those goals impact upon the need for new rehabilitated or modernized facilities. Finally, it details the financial impact and requirements of all the District's capital expenditures.

The CIP is flexible, allowing project expenditures plans to be amended from one year to the next in order to reflect actual expenditures and revised expenditure plans. However, consistent with rigorous strategic planning, substantial changes in the program are discouraged. The CIP is updated each year by adding a planning year, and reflecting any necessary changes in projected expenditures schedules, proposed projects, and District priorities.

The CIP is used as the basis for formulating the District's annual capital budget. The Council and the Congress adopt the budget as part of the District's overall six-year CIP. Following approval of the capital budget, Bond Act(s) and Bond Resolution(s) are adopted to finance the majority of projects identified in the capital budget. Inclusion of a project in a congressionally adopted capital budget and approval of requisite financing gives the District the authority to expend funds for each project. The remaining five years of the program, called the "out-years," show the official plan for making improvements in District-owned facilities in future years.

Why A Capital Improvements Program?

A capital improvements program that coordinates planning, financing and implementing infrastructure and facilities in the District of Columbia is essential to meet the needs of a jurisdiction uniquely situated as the nation's capital. As mentioned previously, capital improvements are those that, because of expected long-term useful lives and high costs, require large amounts of capital funding. These funds are expensed over a multi-year period (usually six years) and result in a fixed asset.

The primary funding source for capital projects is tax-exempt bonds. These bonds are issued as general obligations of the District. Debt service on these bonds (the payment of interest over the lifetime of the bonds) becomes one of the items in the annual Operating Budget and thus, a factor in tax rates and spending affordability.

Also, Congress sets certain limits on the total amount of debt that can be incurred (currently 17.0 percent of general fund revenues) in order to maintain fiscal stability and good credit ratings. As a result, it is critical that the Capital Improvements Plan balance funding and expenditures over the six-year period so that the fiscal impact on the annual Operating Budget will not weigh too heavily in any single year.

Principles of the Capital Improvements Program

Several budgetary and programmatic principles are invested in the CIP. It is the responsibility of the Capital Program to ensure that these principles are followed. Some of the most important principles are:

- To build facilities which support the District stakeholders' objectives.
- To support the physical development objectives incorporated in approved plans, especially the Comprehensive Plan.
- To assure the availability of public improvements. To provide site opportunities to accommodate and attract private development consistent with approved development objectives.
- To improve financial planning by comparing needs with resources, estimating future bond issues plus debt service and other current revenue needs, thus identifying future operating budget and tax rate implications.
- To establish priorities among projects so that limited resources are used to the best advantage.
- To identify, as accurately as possible, the impacts of public facility decisions on future operating budgets, in terms of energy use, maintenance costs, and staffing requirements among others.
- To provide a concise, central source of information on all planned rehabilitation of public facilities for citizens, agencies, and other stakeholders in the District.
- To provide a basis for effective public participation in decisions related to public facilities and other physical improvements.

Program Policies

The overall goal of the Capital Program is to preserve the District's capital infrastructure. Pursuant to this goal, projects included in the FY 2003 to FY 2008 CIP and FY 2003 Capital Budget support the following programmatic policies:

- Provide for the health, safety and welfare needs of District residents.
- Provide and continually improve public educational facilities for District residents.
- Provide adequate improvement of public facilities.
- Provide and continually improve the District's public transportation system.
- Minimize the per capita debt of the District's residents.
- Support District economic and revitalization efforts generally and in targeted neighborhoods.
- Provide infrastructure and other public improvements that retain and expand business and industry.
- Increase employment opportunities for District residents.
- Promote mutual regional cooperation on area-wide issues, such as the Washington Area Metropolitan Transit Authority, Water and Sewer Authority, and solid-waste removal.
- Provide and continually improve public housing and shelters for the Homeless.

The Office of Budget and Planning

The Capital Program falls within the jurisdiction of the Office of Budget and Planning (OBP) under the Office of the Chief Financial Officer (OCFO) and consists of eight full-time equivalents. The mission of the OBP is as follows:

> *The Office of Budget and Planning is the principal advisor on the District's budget and has primary responsibility for the management of the Operating Budget. The OBP prepares, monitors, analyzes and executes the District's budget including operating funds, capital funds, and enterprise funds in a manner that ensures fiscal integrity and maximizes services to taxpayers.*

History

The District's legal authority to initiate capital improvements began in 1790 when Congress enacted a law establishing the District of Columbia as the permanent seat of the federal government and authorized the design of the District and appropriate local facilities. The initial roads, bridges, sewers and water systems in the District of Columbia were installed to serve the needs of the federal government and were designed, paid for, and built by Congress. During the 1800's, the population and private economy of the federal District expanded sharply, and the local territorial government undertook a massive campaign to meet new demands for basic transportation, water, and sewer systems.

From 1874 to 1968, Commissioners who were appointed by the President and confirmed by Congress managed the District. One Commissioner, from the Corps of Engineers, was responsible for coordinating the maintenance and construction of all local public works, in accordance with annual budgets approved by the President and the Congress.

Legislation passed in the 1950's gave the District broader powers to incur debt and borrow from the United States Treasury. However, this authority was principally used for bridges, freeways, and water and sewer improvements. In 1967, the need for significant improvements in District public facilities was acknowledged. This awareness lead to the adoption of a $1.5 billion capital improvement program to build new schools, libraries, recreation facilities, and police and fire stations.

The Home Rule Act amendment in 1984 gave the District the authority to sell general obligation bonds to finance improvements to its physical infrastructure. To date, the District has issued in excess of $3 billion of general obligation bonds to finance capital improvements in the District.

In September 1997, the President signed the National Capital Revitalization Act (the "Revitalization Act"). The Revitalization Act relieved the District of its corrections operations at Lorton Correctional Facility. It also transferred responsibility for funding the maintenance and operation of the D.C. Courts system to the Office of Management and Budget (OMB). The District will therefore not incur the significant capital expenditures required at these facilities. In return, the District will no longer receive a federal payment in lieu of taxes for these functions.

Furthermore, the Revitalization Act raised the percent of annual debt service payable from 14 percent to 17 percent of anticipated revenues in order to compensate the District for the loss of the Federal payment. The primary impact of the Revitalization Act was to increase the District's flexibility to finance capital requirements[1].

Legal Authority and Statutory Basis

There are two statutory requirements that form the legal authority and assign responsibility for the District's Capital Program. They are as follows:

District of Columbia Home Rule Act, P.L. 93-198, §444, 87 Stat. 800: The Mayor is directed to prepare a multi-year Capital Improvements Plan for the District which shall be based upon the approved current fiscal year budget and shall include the status, estimated period of usefulness, and total cost of each capital project on a full funding basis for which any appropriation is requested or any expenditure will be made in the forthcoming fiscal year and at least four fiscal years thereafter.

District of Columbia Appropriations Act, 2003, P.L. 107- 096, §108. (Approval December 21, 2001:) Requires the Mayor to develop an annual plan by project, for capital outlay borrowings.

Along with these statutory requirements, the following Mayor's Order supplements the legal authority and assigns additional responsibility for the District's Capital Program:

Mayor's Order 84-87: Creates within the **Office of Budget and Planning** a Capital Program coordinating office to provide central oversight, direction, and coordination of the District's capital improvements program, planning, budgeting, and monitoring. The administrative order requires the

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[1] For further information on the flexibility to finance capital requirements, see the FY 2003 Operating Budget introductory chapter entitled, "Financial Plan."

Office of Budget and Planning to develop a CIP which identifies; the current fiscal year budget and shall include status, estimated period of usefulness, and total cost of each capital project on a fully funded basis. The expenditure will be made over the next six years and includes:

- An analysis of the CIP, including its relationship to other programs, proposals, or other governmental initiatives.
- An analysis of each capital project, and an explanation of a project's total cost variance of greater than five percent.
- Identification of the years and amounts in which: bonds would have to be issued, loans made, and costs actually incurred on each capital project identified to include applicable maps, graphics, or other media.

Capital Improvements Plan Development Process

The Capital Program, as mandated by Public Law 93-198 - the Home Rule Act, has the annual responsibility of formulating the District's Six-Year Capital Improvements Plan. Each District agency is responsible for the initial preparation and presentation of an agency specific plan. Under the program, projects should complement the planning of other District agencies and must constitute a coordinated, long-term program to improve and effectively use the capital facilities and agency infrastructure. Specifically, the CIP should substantially conform to the Office of Planning's Comprehensive Plan, the District of Columbia Municipal Regulations Title 10 Planning and Development (Chapters 1 to 11).

Program Participants

The development and implementation of the CIP is a coordinated effort among the District's programmatic, executive, and legislative bodies.

User Agencies (Programmatic)

User agencies are responsible for:

- Monitoring the condition of a capital facility and the supporting infrastructure.
- Understanding the capital program requirements and acting within those requirements to maintain the condition of its facility.
- Appointing a Capital Liaison Officer who develops the agency's capital plan, prepares the budget request, and modifies financing proposals throughout the year.

CIP expenditure plans and capital budget requests are developed at the agency level. User agencies must review their agency's strategic plan, replacement schedules, condition assessment, specific projects, construction costs, and time schedules. Agencies then submit their proposed project requests and analysis to the Office of Budget and Planning for review. In developing their request before submitting projects, agencies perform a thorough analysis and consider such fundamental questions as:

- How does the project promote the goals and objectives of the agency?
- What health and safety issues are addressed?
- What is the essence of the project and what type of service will this project provide to citizens?
- Will this project benefit the District?
- What socio-economic group in the community will this project serve?

Implementing Agencies (Programmatic)

Implementing agencies manage actual construction and installation of a capital facility or supporting infrastructure. The implementing agencies are responsible for the execution of projects. This task includes the appointment of a Capital Financial Officer, who monitors the progress of the projects, and ensures:

- The original intent of the project is fulfilled as Congressionally approved.
- The highest priority projects established by the user agency are implemented first.
- Financing is scheduled for required expenditures.
- Historically, the Office of Property Management is the implementing agency for over 90 percent of the projects in the CIP.

Office of Budget and Planning (Executive)

The Office of Budget and Planning (OBP) is responsible for issuing budget call instructions to District agencies. The OBP provides technical direction to agencies for preparing expenditures plans, project/subproject justifications, priority ranking factors, operating budget impacts, cost estimates, milestone data and performance measures. The budget call allows for updates to ongoing projects and requests for additional financing and appropriated budget authority for ongoing and new projects. The OBP coordinates project evaluations to determine agency needs through careful analysis of budget request data, review of current available and future financing requirements, and comparison of project financial needs with the current bond sales and general fund subsidies anticipated to be available for CIP purposes.

Budget Review Team (Executive)

The Director of Budget Formulation for the Office of Budget and Planning chairs the Budget Review Team (the BRT) with representatives from the Office of the City Administrator, Chief Financial Officer, Deputy CFO for Budget and Planning, Deputy CFO for Finance and Treasury, Deputy Mayors and Mayor's Chief of Staff. The technical advisors to the team are the Directors of the Office of Property Management, Office of Planning and the Office of the Chief Technology Officer. The Office of Budget and Planning a – Capital Program coordinating officer to provides analysis and all staff support to the BRT. The Budget Review Team evaluates agency requests using criteria developed by the Office of Budget and Planning.

Mayor (Executive)

The BRT recommendation is then submitted to the Mayor for review, approval and transmittal to the Council. This fiscal year, or in a control year, the BRT's recommendation is submitted to the Mayor and Council for joint review and consensus approval.

Council, Budget Review Team, and Congress (Legislative/Oversight)

There are two levels of legislative/oversight review. They are as follows:

- The Council of the District of Columbia (the Council)
- The Congress of the United States (the Congress)

Each body reviews and approves the capital budget and the six-year plan.

Authorizing Projects in the CIP

The OBP reviews and analyzes the CIP with the assistance of the Budget Review Team (the "BRT"). The CIP is developed in the four-step process described below[2]:

Steps 1: Budget Call

In the fall of the current fiscal year, District agencies are requested to provide the OBP with updated information regarding on going projects (increases or decreases in funding or planned expenditures), as well as requests for new projects. The instructions call for agencies to provide detailed information on a project's expenditure requirements, physical attributes, implementation timeframe, feasibility, and community impact. In addition, agencies provide project milestones, estimated costs, expenditure plans, Operating Budget impacts and a prioritized list of potential capital projects. The agency requests are disseminated to all members of the Budget Review Team for review.

Step 2: Budget Analysis

Project requests submitted in Step 1 undergo a thorough analysis to determine whether agency requests merit inclusion in the District's CIP. This analysis is divided into the following three primary functions:

Step 3: Budget Review Team Recommendations

OBP provides analysis to the budget review team. The analysis is assessed and recommendations are proposed based on the following factors:

Function 1 - Project Justification: Each project request is evaluated by the BRT to determine its relationship with the agency's overall mission; whether the project is duplicative of efforts of another agency's on going project; whether the project is in concurrence with the District's Comprehensive Plan; and whether the planned expenditure is an operating rather than capital expense.

In addition, project requests are reviewed based on priority criteria and must meet one or more of the factors below[3]:

[2] A flowchart of the CIP approval process is provided in Appendix F – Authorizing Projects in the CIP.

- Health/Safety
- Legal Compliance
- Efficiency Improvement
- Facility Improvement
- Revenue Initiative
- Economic Development
- Project Close-out

Function 2 - Cost Analysis: An important factor in the evaluation of a project request is the overall cost it will incur. Cost estimates are developed in conjunction with the Department of Public Works and the Office of Property Management to validate the project costs proposed in the agency submissions. Furthermore, future operating costs are estimated in order to provide supplementary information regarding out-year liabilities once the project is implemented (Operating Budget Impacts).

Function 3 - Financing Analysis: The Office of the Chief Financial Officer is committed to finance capital projects in a manner in which:

- Funding is committed for the entire CIP.
- The District receives the lowest cost of funding available.
- The useful life of the capital projects matches and does not exceed the average maturity of the liability used to finance the assets

As such, OBP reviews the useful life of each project and presents this information to the Office of Finance and Treasury (OFT). OFT develops a strategy to match the underlying assets with an appropriate means of financing.

Step 4: Approval

After reviewing all capital project requests with regard to scope of work, projected cost, and financing alternatives, the BRT evaluates the projects based on their physical attributes, implementing feasibility, and physical/economic impact on the community. The BRT then formulates a recommendation in the form of a CIP. The proposed Capital Improvements Plan is then submitted to the Mayor and Council for approval and then to Congress for final Congressional approval.

[3] Appendix E provides a complete breakdown of all projects in the CIP by priority criteria.

Phases of a Capital Project

It is assumed that all capital projects are actually the sum of a series of sections, grouping types of tasks necessary to accomplish the project's goal. These sections of similar task groupings are defined as phases. Each project in the CIP is approved and budget allocated to five phases. However, in some instances, projects need funding for planned expenditures only in one particular phase, such as major equipment acquisition. Phases are referenced numerically and alphabetically, as follows:

1. Design
2. Site
3. Project Management
4. Construction
5. Equipment

Design includes all work completed to define the scope and content of the project. Architects and engineers employed by agencies to analyze the planning for a project to be funded. Costs associated with solicitations and proposals also fall within this phase. This phase is used to fund any processes necessary for selection of contracts.

Site Acquisition covers costs associated with site preparation, legal work, demolition and hauling expenses. Site appraisal and survey are also funded through this phase.

Project Management pays all internal agency management and support costs from design to construction. Activities within this phase include any work of the project manager and other staff.

Construction includes any construction contract work done by other District agencies. This phase funds work on a particular construction contract.

Equipment funds disbursed for specialized equipment. Equipment funded through capital has to be permanently connected to the physical plant designed as an integral part of the facility. Equipment defined for funding by this phase includes such items as the purchase and installation of elevators, boilers, generators, and HVAC systems. The Capital Program will not fund office equipment or personal computers. These are expected to be funded by the operating budget.

Project Milestones

Each phase of a project is monitored and tracked using "milestone" data. Milestones allow the Capital Program to determine if projects are being completed on time and within budget. The data is provided by agencies in the quarterly Financial Review Process (FRP) and in the annual budget submissions as justification for additional funding.

Milestone data includes such items as project authorization dates, original project cost estimates, contract award dates, revised completion dates, construction start dates and others. In an attempt to summarize the various elements of milestone data, the Capital Program includes status codes in the project description forms

The Comprehensive Plan

The Capital Improvements Plan must be consistent with the District's Comprehensive Plan. The following is a brief synopsis of the Comprehensive Plan and its role in the development of the CIP.

The Comprehensive Plan is a master land use and development document for the District of Columbia. The Office of Planning creates the Comprehensive Plan in partnership with the National Capital Planning Commission, District agencies, stakeholders, citizens and the private sector. It is approved by the Mayor and Council and is codified by law - Title 10 (Planning and Development) of the District of Columbia Municipal Regulations (Subtitle A: Comprehensive Plan). It is updated on a regular schedule (usually every 7-10 years) and consists of 11 chapters under the following titles:

Chapter	Plan Title
Chapter 1	***General***
Chapter 2	***Economic Development***
Chapter 3	***Plan: Housing***
Chapter 4	***Environnemental Protection***
Chapter 5	***Transportation***
Chapter 6	***Public Facilities***
Chapter 7	***Urban Design***
Chapter 8	***Preservation of Historic Features***
Chapter 9	***Downtown Plan***
Chapter 10	***Human Services***
Chapter 11	***Land Use Element***

The Comprehensive Plan includes both District of Columbia (local) and federal elements. There are 11 District elements and eight federal elements. Since April 10, 1984, the District elements have been enacted by the Council of the District of Columbia and approved by the Mayor. The federal elements include *Federal Goals for the Nation's Capital* and have been prepared and adopted by the National Capital Planning Commission.

PROGRESS REPORT ON CRITICAL ONGOING INITIATIVES

The following is a progress report on initiatives outlined in previous Capital Improvements Plans. While there are a number of ongoing initiatives, the following are the most critical to the Capital Program's overall financial and programmatic health. The highlighted initiatives include:

Critical Ongoing Initiatives
Capital Improvement Program Assessment
Administrative Services Modernization Program

Capital Improvements Program Management Assessment

To help District agencies assemble a strong CIP and manage it proficiently, there needs to be a comprehensive review of the program policies and strategies developed to expand on service delivery and program efficiency. To improve the CIP's performance, the District is initiating a comprehensive study of the Capital Program. The study will be used to improve the link to its customers (City Agencies) and stakeholders (DC Council, Congress, and the Citizens of the District of Columbia). This project officially started in March and is scheduled to be completed in one year.

The purpose of the study is to:

∉# Conduct a complete assessment of the Capital Improvement Program, for both financial and management components.

∉# Develop a comprehensive CIP database for the District with the capability for extracting individual agency information along with wide-ranging up to date reporting capabilities.

∉# Evaluate the procurement action lead times for agency CIPs, and provide a flow chart for each agency's acquisition process.

∉# Identify inefficiencies and bottlenecks that prevent proper project implementation. Provide a statistical analysis of each agency's success rate and recommend corrective actions.

∉# Develop strategies and recommend solutions to facilitate efficient project and program management.

Districts Capital Program's Performance Measurement Plan:

Historically, the Capital Program has not reported input and output measures in the budget documents. The performance measurement plan being articulated is the first introduction of performance measures for the District's Capital Program. It consists of three timeframe stages (short, intermediate, and long) based on three items. It is presented in Table CIP-1.

The objective is to create a performance based Capital Program, one that values efficiency, effectiveness, and service delivery. In the future, the performance measurement system will incorporate citizen input into the process.

FY 2002 Programmatic Initiatives in Review

The FY 2002 Programmatic Initiatives for the Capital Improvement Program continued to develop ways to streamline the budget process, improve service delivery, administer performance audits and create equipment replacement schedules. Great strides were made to accomplish these initiatives, however, there is much work remaining to be done.

The area of great concern echoed by many is still the backlog of capital projects. The CIP is addressing this issue by establishing a Centralized Integrated Product Team (IPT). The IPT consist of program specialist from both the Office of Property Management and the Office of Contract and Procurement solely dedicated to the planning, execution and management of capital projects.

In addition, the Office of the Chief Technology Officer has worked closely with agency directors to ensure that they have the necessary resources and information technology solutions to adequately support the implementation of projects.

Table CIP-1

	Performance Measurement Plan Timeframe Stages		
Item	**Short**	**Intermediate**	**Long**
Goal	Continue developing additional measures for the FY 2003 to FY 2008 CIP and FY 2003 Capital Budget	Collect and report performance data on a quarterly basis	Use performance data to develop the FY 2004 to FY 2009 CIP and FY 2004 Capital Budget
Time Period	**Present – June 2003**	**June 2003 – June2004**	**On going**
Activities	∉# Develop draft measures with the Department of Public Works ∉# Present initial performance measures to agencies during FY 2003 ∉# Receive feedback from implementing agencies	∉# Train District employees in performance measurement ∉# Develop accurate baseline of current capital performance ∉# Report findings in FY 2003 to FY 2008 CIP and FY 2003 Capital Budget	∉# Continuously improve upon current performance ∉# Develop a performance based capital budget ∉# Deliver performance reports to Congress and District Council ∉# Incorporate citizen input

FY 2003 Programmatic Objectives and Future Directions

In FY 2003, the Capital Improvements Program is committed to work closer with district stakeholders, and agency director's to develop a realistic baseline budget consistent with community concerns and mayoral priorities. Going forward, agencies will be held more accountable to complete projects on time and within budget. The demand on resources to fully fund projects dictates the need to develop fiscal discipline and sound management practices.

In FY 2003 the Capital Improvement Program will put in place the following initiatives:

Administrative Service Modernization Program

The Administrative Services Modernization program is one of the most ambitious and risky IT initiatives undertaken in the District. The build out of the enterprise resource planning system (ERP) is designed to streamline core administrative functions, leverage resources, and cut costs. ERP is a generic term used to describe any business management system that integrates all facets of the business, including personnel, payroll, benefits, accounting, billing, and financial management.

This project is key to basic productivity improvement in District agencies. The District's multi-year ASMP incorporates finance, human resources (HR), procurement, payroll, property management and performance based budgeting functions.

It is anticipated that dramatic benefits will result from the implementation of the ASMP system.

For example, in HR we'll see faster hiring, lower costs, more accurate employee information, and broader, more flexible HR capabilities. In purchasing, we'll benefit from faster procurements, lower per-transaction costs, and far fewer errors. In payroll, we'll profit from more reliable payroll information, more efficient work distribution, and lower payroll transactions costs. In property management, we'll see faster initiation of maintenance work orders, quicker completion of real estate renovations and capital improvements, and lower costs.

Revenue Generating Initiatives

Historically, General Obligation Bond proceeds have been the primary source of funding capital projects. However, as a result of the backlog of capital projects and the strain placed on the operating budget in terms of debt service payments, the need to identify revenue-generating initiatives that help support the cost of projects becomes even greater. For example, the District is exploring creating a special assessment tax district to cover the cost of a major economic development initiative. In addition, several other agencies have developed partnerships with public and private entities to bring together financial resources. It is through this collective effort that alternative revenue generating initiatives will be explored.

Performance Measures and Benchmarks

Local governments to measure efficiency, effectiveness and productivity are using performance measures more frequently. Comparing performance with selected benchmarks will be a valuable step in evaluating agency operations. The capital improvement program will be developing performance measures that address a reactive approach to service delivery and reporting. For example, examining the statistics on how quickly potholes are filled or how fast streets are cleared in snow emergency situations can be a measure of productivity efficiencies. It is our goal to have a more proactive management approach with performance measures that gauge effectiveness to anticipate problems before they occur and develop a comprehensive solution strategy.

In FY 2003, the District initiates the second phase of the implementation of performance-based budgeting (PBB) with 26 additional agencies joining the initial seven using performance benchmarks. This phase will complete the PBB transition for the agencies that report to the Mayor.

Develop Standards to Comply with GASB 34

GASB 34 is a standard issued by the Government Accounting Standards Board. Under GASB, the cost of fixed assets, i.e. plant, property and equipment must be recognized through the depreciation over the life of the assets. Helping to ensure compliance with the new standard will require discussions with program managers, information technology specialist, financial staff, budget analyst, and accounting professionals.

By instituting these new initiatives, the Capital Improvement Program seeks to improve the overall monitoring and reporting of the program through good budgeting and sound fiscal management.

MAYOR'S POLICIES FOR THE CAPITAL IMPROVEMENTS PROGRAM

The Mayor's policies for the Capital Improvements Program complement his policies designed for the health and development of the District of Columbia. These initiatives evolve in response to changes in the local economy, Congressional oversight, revenues, and funding tools available to carry out complete and comprehensive public services to the citizens of the District. The following are the Mayor's five policy initiatives and their respective CIP achievement budget

1-Strengthening Children, Youth, Families and Individuals - Families are the most important component of our neighborhoods. Strong families create healthy communities where neighbors know and trust each other, and children grow into healthy and productive adults. The goal of this policy initiative is to promote strong children, youth, families, individuals and communities through a network of human and social services that supports and sustains productive and healthy lifestyles. This plan is a guide for creating a pro-family system of integrated service to address the complex challenges faced by District residents. To enhance support for all citizens in the District, the following goals must be achieved:

- Children are ready for school,
- Children and youth succeed in school,
- Children and youth live in healthy, stable and supportive families and environments,
- All youth make a successful transition into adulthood,
- People with disabilities live with dignity and independence in community settings they prefer,
- All youth make a successful transition into adulthood,
- Youth choose healthy behaviors,
- Youth choose healthy behaviors,
- Elders are considered a resource and live with dignity and independence in community settings they prefer,
- Elders are considered a resource and live with dignity and independence in community settings they prefer,
- People with disabilities live with dignity and independence in community settings they prefer,
- All residents have access to quality health care,
- Families, individuals, and the elderly live in healthy, safe and supportive communities,
- All families, children, youth, individuals, and elderly are engaged in and contribute to their communities' decisions and activities,
- All residents have opportunities for lifelong learning, and
- All families and individuals are economically self-sufficient.

In short, the goal of this plan is to promote strong children, youth, families, individuals and communities through a network of human and social services that supports and sustains productive and healthy lifestyles. This plan is a guide for creating a pro-family system of integrated service to address the complex challenges faced by District residents.

The FY 2003 to FY 2008 CIP policy initiatives related to Strengthening Families total $862 million in project proposals. Included are $280 million proposed funds for FY 2003. Specific Projects included in the FY2003 to FY 2008 CIP that advance these initiatives are provided in Table CIP-2.

Table CIP-2

AG	FY 2003	FY2003-FY 2008	Strengthening Children, Youth, Families and Individuals
BY0	8,255,000	8,255,000	Office on Aging – Including wards 1, 2 site acquisition and construction of senior wellness center, renovation of ward 5 and ward 7 senior wellness center.
GA0	222,111,000	732,980,000	DC Public Schools – Including life and safety code compliance and complete renovation and modernization projects on a number of schools.
HC0	8,599,000	27,398,000	Department of Health – Including: HIPPA Consortium, Child Advocacy Center (Gales School), and the JB Johnson Facility Modernization.
JA0	13,257,000	22,707,000	Department of Human Services – Including IT Initiatives (ACEDS), CCNV Plumbing Fixtures and Bundy School Upgrade and Homeless Shelters (Grummel and Randall).
RM0	27,410,000	70,708,000	Commission on Mental Health Services – Including St. Elizabeth Boiler, and new SHE Inpatient and Environmental Clean-up.
Total	**$279,632,000**	**$862,048,000**	

2-Building Sustainable Neighborhoods - Neighborhoods are the fundamental building blocks of a city. Not because of the streets and buildings and metro stops that mark the area, but because of the people who live and work there, who give the neighborhood its character, and who ultimately determine its future. The quality of neighborhood life has a huge impact on the health of our families, the strength of our economy, and the future of our children. For these reasons, Building and Sustaining Healthy Neighborhoods is critical among the list of strategic priorities in the City-Wide Strategic Plan. The quality of our physical environment has a massive impact on the health of our families, the strength of our economy, and the future of our children. For these reasons, Building and Sustaining Healthy Neighborhoods is critical among the list of strategic priorities in the City-Wide Strategic Plan. The following are goals of the initiative:

- Establish basic safety in streets and buildings. Enhancement of the appearance and security of neighborhoods city-wide
- Improve Access to quality housing city-wide
- Engage residents in building their neighborhoods
- Sustain healthy neighborhoods city-wide
- Identify communities and mobilize partners
- Reclaim Community
- Restore and revitalize community
- Sustain success

The FY 2003 to FY 2008 CIP policy initiatives related to Strengthening Families total $184 million in project proposals. Included are $84 million proposed funds for FY 2003. Specific Projects included in the FY2003 to FY 2008 CIP that advance these initiatives are provided in Table CIP-3.

Table CIP-3

AG	FY 2003	FY2003-FY 2008	Mayor's Policy Initiatives for Building and Sustaining Healthy Neighborhoods
BX0	1,696,000	6,718,000	Commission on the Arts and Humanities – Including Art Bank II.
CE0	7,061,000	10,871,000	DC Public Library – New Benning branch library, Watha T. Daniel renovation, and Tenley branch library,
FA0	28,336,000	37,725,000	Metropolitan Police Department – Base Building renovations, Specialized Vehicles
FB0	10,172,000	18,246,000	Department of Fire and Emergency Services – Facility Renovation including renovation of Engine 10, 25, 28, and 32, Fire Apparatus.
HA0	30,638,000	94,507,000	Department of Parks and Recreation – General Improvements including Georgetown Pool and Rec. Center, Deanwood Recreation center and Hill Crest Recreation Center.
FL0	6,352,000	16,231,000	Department of Corrections – Complete renovation Emergency Power System Upgrades and reconfiguration of Visitors Entrance and Elevator Replacement for the Central Detention Facility
Total	**$84,255,000**	**$184,298,000**	

3- Promoting Economic Development - Government alone cannot meet all the needs of children, families and neighborhoods. A vital economy is critical to providing quality jobs, affordable housing, and vibrant cultural amenities for our citizens. The Economic Development action plan sets a course for expanding our economy to this end. The following are the goals of this initiative:

- Increase new and rehabilitated housing units
- Increase homeownership
- Grow private sector by targeting industry networks
- Grow target industries
- Link training to growth sectors through coordinated systems
- Market the District
- Ensure a competitive D.C.
- Increase access to capital
- Establish retail hubs/commercial centers in neighborhoods
- Relocate District agencies to neighborhoods to spur economic development

The FY 2003 to FY 2008 CIP policy initiatives related to Economic Development total $597 million in project proposals. Included are $118 million proposed funds for FY 2003. Specific Projects included in the FY2003 to FY 2008 CIP that advance these initiatives are provided in Table CIP-4.

Table CIP-4

AG	FY 2003	FY2003-FY 2008	Mayor's Policy Initiatives for Economic Development
EB0	8,600,000	8,600,000	Business and Economic Development – Neighborhood Revitalization – Shaw
GF0	6,905,000	13,076,000	University of the District of Columbia – Complete renovation of buildings 32,38,39,41,42,44,46,47 and 52.
KT0	5,030,000	5,030,000	Department of Public Works – Fenwick Bldg Renovations
KA0	40,081,304	228,292,357	Department of Transportation – Including Economic Development Initiatives, Dead and Hazardous Tree Removal, Local Pavement Restoration Traffic signal Improvements.
KE0	40,500,000	314,200,000	Washington Metropolitan Transit Authority –Metrobus and Metrobus Barn Repairs
DB0	16,921,000	27,818,000	Department of Housing and Community Development – Affordable housing Program and Ft. Lincoln Utility.
Total	**$118,037,304**	**$597,016,357**	

4-Making Government Work - The district government plays a pivotal role in assembling, coordinating and deploying resources – a role that is critical to the fulfillment of the public will. Government must be a reliable partner for citizens in their neighborhoods. The following are the goals of this initiative:

- Ensure all operations focus on customer service
- Ensure agencies can obtain the resources they need to support service delivery
- Enhance the look and functionality of government buildings
- Schedule and coordinate neighborhood service delivery
- Make government work better and cost less
- Improve the management of employees
- Harness the power of technology to improve service delivery
- Use a Performance Management System to drive meaningful change in agencies

The FY 2003 to FY 2008 CIP policy initiatives related to Making Government Work total $291 million in project proposals. Included are $134 million proposed funds for FY 2003. Specific

Projects included in the FY2003 to FY 2008 CIP that advance these initiatives are provided in Table CIP-5.

Table CIP-5

AG	FY 2003	FY2003-FY 2008	Making Government Work
AT0	28,526,000	40,041,000	Office of Chief Financial Officer – Financial, Budget and Payroll system upgrades.
BE0	5,000,000	10,000,000	Office of Personnel – HR Modernization
CR0	2,750,000	5,500,000	Department of Consumer and Regulatory Affairs – Real Property Database
KV0	10,208,000	10,208,000	Department of Motor Vehicles – IT information Technology and MVIS and IT Infrastructure.
TO0	87,370,000	224,971,000	Office of the Chief Technology Officer – DC Wide Area Network, GIS Management System, Public Service Workstations
Total	**$133,854,000**	**$290,720,000**	

5- Enhancing Unity of Purpose – In order for the District of Columbia to be the great city we know it can be, it is necessary for every sector of our community to join together behind a common agenda, a unity of purpose. Government must do its part for our community, so must our foundations, our faith community, our businesses, our nonprofits, our labor organizations, our academic institutions and our citizens. The Unity of Purpose strategic priority fosters the development of shared priorities and common goals for the District of Columbia, and aligns our community's resources behind those priorities and goals. The following are goals of the initiative:

- Engage citizens in the governance of the city
- Promote multi-sector support and implementation of the community's shared priorities
- Foster a constructive and respectful relationship with Federal government agencies and Congressional oversight committees, and establishing home rule for the District
- Enhance regional cooperation among local jurisdictions and thereby foster common goals throughout the metropolitan area

The FY 2003 to FY 2008 CIP policy initiatives $42 million related to Unity of Purpose total $20 million including FY 2003 CIP that advance these initiatives are provided in Table CIP-6.

Table CIP-6

AG	FY 2003	FY2003-FY 2008	Mayor's Policy Unity of Purpose and Democracy
AM0	17,029,000	38,041,000	Office of Property Management – Including Government Centers, DC Armory Renovation and Reeves Municipal Center
BD0	1,650,000	2,000,000	Office of Planning – Public Planning Fund
PO0	1,500,000	1,500,000	Office of Contracting and Procurement – E-Procurement
Total	**$20,179,000**	**$41,541,000**	

Fiscal Policy

Policy on Project Eligibility for Inclusion in the CIP

Capital expenditures included, as projects in the CIP must:

- Be carefully planned, generally as part of the District-wide Facility Condition Assessment Study in concert with the Comprehensive Plan. This provides decision-makers with the ability to evaluate projects based on a full disclosure of information.
- Have a useful life of at least three years or add to the physical infrastructure and capital fixed assets.
- Enhance the productivity or efficiency capacity of District services.
- Have a defined beginning and a defined ending.
- Be related to current or potential projects. For example, facility planning or major studies should be funded with current revenues.

Policy on Debt Financing

With a few exceptions (Highway Trust Fund projects), the CIP is primarily funded with general obligation bonds or equipment lease/purchase debt. Capital Improvement projects usually have a long useful life and will serve taxpayers in the future as well as those paying taxes currently. It would be an unreasonable burden on the current taxpayers to pay for the entire project up front. General obligation bonds, retired over a 20 to 30-year period, allow the cost of capital projects to be shared by current and future taxpayers, which is reasonable and fair. Capital improvement projects eligible for debt financing must:

- Have a combined average useful life at least as long as average life of the debt with which they are financed.
- Not be funded entirely from other potential revenue sources, such as Federal aid or private contributions.

Policy on Capital Debt Issuance

In formalizing a financing strategy for the District's Capital Improvements Plan, the District adheres to the following guidelines in deciding how much additional debt, both general obligation and revenue bonds, may be issued during the six-year CIP planning period:

- STATUTORY REQUIREMENTS: The issuance of general obligation indebtedness cannot cause maximum annual debt service to exceed 17.0 percent of local revenues as stipulated in the Home Rule Act.
- AFFORDABILITY: The level of annual operating budget resources available to pay debt service should not impair the District's ability to fund ongoing expenditures and maintain operating liquidity.
- FINANCING SOURCES: Evaluating varying financing sources and structures to maximize capital project financing capacity at the lowest cost available, while maintaining future financing flexibility.
- CREDIT RATINGS: Issuance of additional debt should not negatively impact the District's ability to maintain and strengthen current credit ratings, which involves the evaluation of the impact of additional debt on the District's debt burden. This includes having certain criteria and ceilings regarding the issuance of new debt and the ratios of debt per capita and debt service to local revenues.

Policy on Terms for Long-Term Borrowing

To mitigate the interest costs associated with borrowing, the District identifies sources other than bond proceeds to fund its CIP, such as grants, Highway Trust Fund moneys, and Paygo capital. Furthermore, the District issues its bonds annually based on the anticipated spending for the fiscal year, not on a project-by-project basis. The District has issued only general obligation bonds in the past, but will continue to analyze the potential benefits associated with the issuance of revenue bonds for general capital purposes in the future. The pledge of a specific revenue source for the issuance of revenue bonds must not have a negative impact on the District's general fund or general obligation bond ratings, and must provide favorable interest rates.

In order to match the debt obligations with the useful life of the projects being financed, the District issues short to intermediate-term financing for those projects that may not fit the criteria for long term financing. The District amortizes bonds over a 25 to 30-year period for those projects with an average 30-year useful life.

Bonds may be issued by independent agencies or instrumentalities of the District as authorized by law. Payment of the debt service on these bonds is solely from the revenue of the independent entity or the project being financed.

Policy on Terms for Short-Term (Interim) Borrowings

The District may issue other forms of debt as appropriate and authorized by law, such as bond anticipation notes (BANs) and commercial paper. The use of BANs or commercial paper provides a means of interim financing for capital projects in anticipation of future bond offering or other revenue takeout. Furthermore, these types of interim financing tools allow the District to benefit from lower interest costs by including short-term financing of capital expenditures in the initial financing structure. The use of BANs and/or commercial paper is intended at such times that it is financially feasible.

Policy on the use of the Master Equipment Lease/Purchase Program

The purpose of the Master Equipment Lease/ Purchase Program (the Program) is to provide District agencies with access to low-cost tax-exempt financing for equipment purchases, as an alternative to outright purchases, which would have a higher cost in the current year's budget, or other more expensive leasing or financing arrangements. Furthermore, the Program assists the District in improving its assets/liability management by matching the useful life of the asset being financed to the amortization of the liability.

The Program terms and conditions are established under an "umbrella" contract. Since the terms and conditions are up-front, there is no need to negotiate a new lease contract each time equipment is to be financed as long as the master lease agreement is in effect.

For equipment or any system (i.e. computer) to be eligible it must have a unit value of at least $25,000. In addition, it must have a useful life of at least five years. The repayment (amortization) will not exceed the useful life of the equipment being financed. The maximum financing term that may be requested is 10 years.

Rolling stock such as autos, trucks, and public safety vehicles are eligible, as well as computer hardware and software, with certain limitations.

Policy on the Use of Paygo Financing

"Pay-as-you-go" (Paygo) financing is obtained from current revenues authorized by the annual Operating Budget and approved by the Council and the Congress in a public law to pay for certain projects. No debt is incurred with this financing mechanism. Once the public law becomes effective, the operating funds are transferred to the capital account and allocated to the appropriate project. Generally, Paygo financing supports the costs for minor repairs, equipment purchases, or other items that do not qualify for long-term general obligation bond financing. The Mayor has the following policies on the use of Paygo financing:

- Paygo must be used for any CIP project not eligible for debt financing by virtue of its limited useful life.
- Paygo should be used for CIP projects consisting of short-lived equipment replacement (not eligible for the Master Equipment Lease Purchase Program), and for limited renovations of facilities.
- Paygo may be used when the requirements for capital expenditures press the limits of bonding capacity.

Congressional Appropriations

Notwithstanding any other provisions in the law, the Mayor of the District of Columbia is bound by the following sections of the D.C. Appropriations

Act, 2000 included in P.L. 105-277 of the Omnibus Consolidated and Emergency Supplemental Appropriations for fiscal year 2000. These sections were mandated by the 105th Congress to be enacted for the fiscal year beginning October 1, 2000.

> **§113** *At the start of the fiscal year, the Mayor shall develop an annual plan, by quarter and by project, for capital outlay borrowings: Provided, that within a reasonable time after the close of each quarter, the Mayor shall report to the Council of the District of Columbia and to the Congress the actual borrowings and spending progress compared with projections.*

> **§114** *The Mayor shall not borrow any funds for capital projects unless the Mayor has obtained prior approval from the Council of the District of Columbia, by resolution, identifying the projects and amounts to be financed with such borrowings.*

> **§115** *The Mayor shall not expend any moneys borrowed for capital projects for the operating expenses of the District of Columbia government.*

Trends Affecting Fiscal Planning

Several different kinds of trends and economic indicators are reviewed, projected, and analyzed each year for their impact on the Operating Budget and for their impact on fiscal policy as applied to the Capital Improvements Plan. These trends and indicators include:

- INFLATION: Important as an indicator of future project costs or the costs of delaying capital expenditures.
- POPULATION GROWTH/DECLINE: Provides the main indicator of the size or scale of required future facilities and services, as well as the timing of population-driven project requirements.
- DEMOGRAPHIC CHANGES: Changes in the number and/or locations within the District of specific age groups or other special groups, which provides an indication of requirements and costs of specific public facilities (i.e., senior wellness centers and recreation centers).
- PERSONAL INCOME: The principal basis for projecting income tax revenues as one of the District's major revenue sources.
- IMPLEMENTATION RATES: Measured through the actual expenditures within programmed and authorized levels, implementation rates are important in establishing actual annual cash requirements to fund projects in the CIP. As a result, implementation rates are a primary determinant of required annual bond issuance.

Spending Affordability

One of the most important factors in the CIP development process is determining spending affordability. Spending affordability is determined by the amount of debt service and Paygo capital funds that can be reasonably afforded by the Operating Budget, given the District's revenue levels, operating/service needs, and capital/infrastructure needs. The size and financial health of the capital program is therefore somewhat constrained by the ability of the Operating Budget to absorb increased debt service amounts and/or operating requirements for capital expenditures. Realizing that maintenance and improvement in the District's infrastructure is important to the overall health and revitalization of the District, policymakers have worked diligently over the past several years to increase the levels of capital funding and expenditures. Debt reduction efforts on the part of District policymakers and financial leadership have served to increase the affordability of such additional capital spending. There is the on-going need, however, to balance the infrastructure needs with the spending affordability constraints.

Financial Management Targets

The District has established certain financial management targets that are consistent with maintaining a healthy debt management program to finance its capital needs. Key targets include the following:

- Reduction, or containment of increase, of outstanding debt and debt service

- Debt ratios comparable with industry standards
- Achieving further increases in bond ratings from all three major rating agencies (to the "A" level).

Financial Management Target: Reduction, or Containment of Increase, of Outstanding Debt and Debt Service

The District has amortized most of its bond issues over 20 years. In addition to this amortization structure, the District financed an operating deficit in 1991 with an intermediate term repayment structure. Only within the last several fiscal years has the District amortized its bonds over 25 to 30 years to better match the useful life of the assets being financed. These amortization structures caused the District's debt service to be heavily front-loaded, creating a strain on the District's operating budget.

In FY 1999, the District restructured its debt in order to adjust this heavily front-loaded debt amortization. This restructuring, which moved some of the near-term debt service out to future years, produced debt service and operating budget relief of an average of approximately $65 million annually for the next several years.

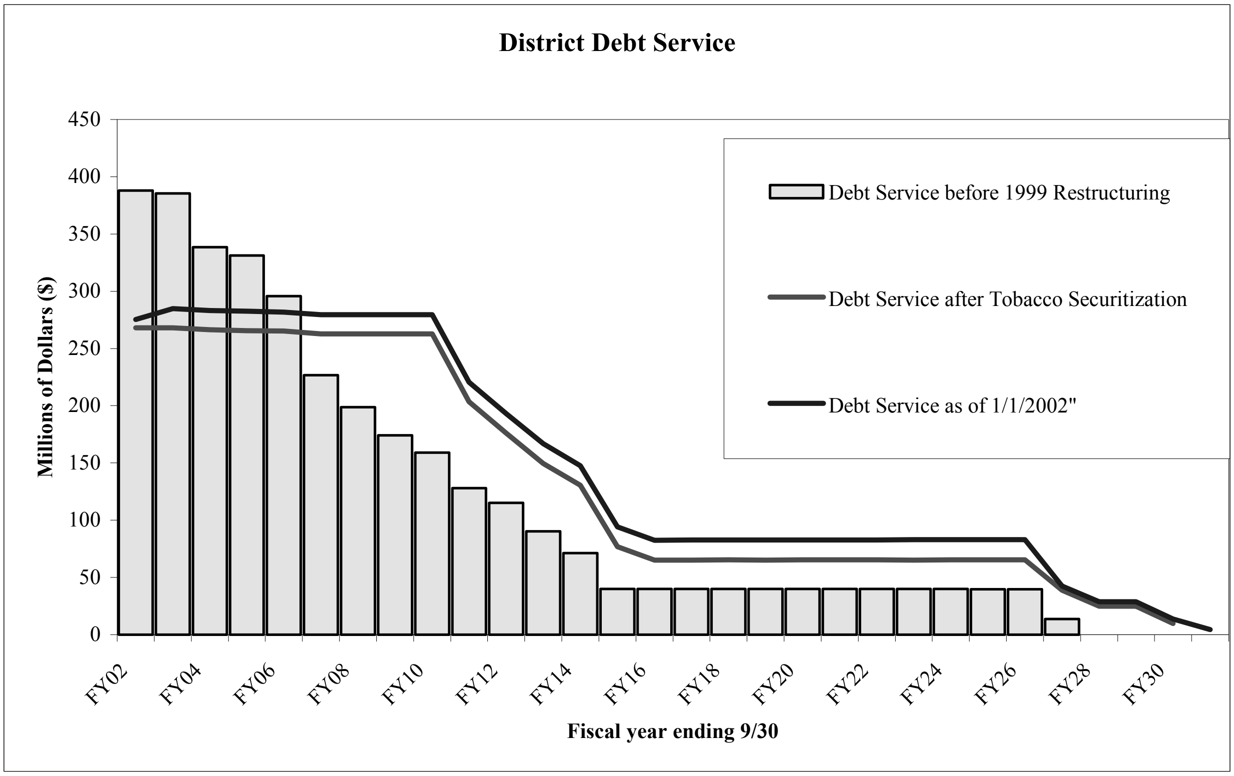
In FY 2000, the District issued $189 million of variable-rate bonds to fund approved FY 2000 capital projects. Variable-rate bonds typically provide a lower cost of capital than fixed-rate bonds. For this reason, despite the inherent fluctuation in the debt service on them, it is desirable to have some portion of the District's debt portfolio as variable-rate. The District's target percentage range for variable-rate debt is 10 to 15 percent of the total debt portfolio, and it currently has approximately 7 percent outstanding.

In FY 2001, the District significantly reduced its outstanding general obligation debt by securitizing the revenues that it is due to receive over the next 30 years as a result of the national settlement with the manufacturers of tobacco products (the Master Settlement Agreement). The District established a separate instrumentality, the Tobacco Settlement Financing Corporation (the Corporation), which issued bonds backed by the District's future tobacco settlement revenues (TSRs). This transaction represents the District selling its rights to these TSRs (to the Corporation) in exchange for an upfront lump-sum payment (represented by the proceeds of the bond sale). These bonds are not debt of the District, however. They represent debt of the Corporation, payable solely from TSRs to be received by the Corporation in the future. Through this transaction, the District transferred the risk associated with non-receipt of TSRs in the future. The bond proceeds from transaction were used to pay off outstanding debt of the District. Specifically, the District reduced its outstanding debt by $482 million by applying these bond proceeds to pay off outstanding general obligation bonds. This resulted in debt service savings totaling approximately $684 million over 14 years, for an average of roughly $50 million of debt service savings per year.

In addition, in accordance with a Congressional requirement, the District used $35 million of its Fund balance in FY 2000 to pay off outstanding general obligation bonds.

Through the transactions described above, the District has significantly reduced and restructured its outstanding debt and the associated debt service payments to be made from the District's operating budget. Funding of the current CIP will naturally increase the outstanding debt and corresponding debt service; however, these increasing levels will be continually monitored and contained within certain limits in the process of managing the affordability and the debt burden associated with the District's debt. The following graph depicts the changes in the District's debt amortization and debt service over past several years.

Graph CIP-1



Financial Management Target: Debt Ratios Comparable with Industry Standards

Three debt ratios that are typically used as measures of a jurisdiction's debt burden are debt-to-Full (property) Value; Fund Balance as a percent of General Fund Revenue; and Debt Per Capita. With the notable exception of the Debt Per Capita, the District's debt ratios are comparable with those of other major municipalities. *(Chart)* In terms of Debt Per Capita, one of the reasons that the District's ratio is relatively high is that for years it has funded capital projects that are typically funded by states. Notwithstanding this fact, the District intends to continually monitor its debt ratios with the goal of having them be comparable or favorable in relation to other major municipalities and rating agency benchmarks.

The FY 2003 to FY 2008 Capital Improvements Plan (CIP), proposes that the District fund $2.0 billion in new and on going capital projects (excluding the Highway Trust Fund), of which $1.57 billion qualify for long-term (20-30 year) financing and $421 million for intermediate-term (10-15 year) financing. The District's ratio of maximum annual debt service to total local revenues is currently 8.1%, which leaves sufficient debt capacity for the proposed six-year CIP within the legal debt limit of 17%.

Table CIP-7

DEBT RATIOS							
Debt Measures*	District of Columbia	Baltimore	Chicago	Detroit	San Antonio	New York	Philadelphia
Net Overall Debt to Full value	6.0%	2.3%	7.0%	7.5%	7.0%	10.3%	7.1%
Net over all Debt per Capita	$4,626	$675	$3,030	$1,559	$1929	$4,664	$1,840
Fund Balance as % of Revenues	10.3%	11.5%	15.9%	15.3%	29.9%	1.0%	14.9%

* Source: FY 2001 CAFR for District of Columbia, New York City, Baltimore, Philadelphia, FY 2000 CAFR for all others.

Credit ratings evaluate the credit worthiness of a jurisdiction and the credit quality of the notes and bond the jurisdiction issues. Specifically, credit ratings are intended to measure the probability of the timely repayment of principal and interest on notes and bonds issued by the District. Potential investors utilize credit ratings to assess their repayment risk in loaning the District funds for capital and short-term operating needs.

There are three major agencies that rate the District's debt: Fitch IBCA, Inc., Moody's Investors Service, and Standard & Poor's Corporation (S&P). A summary of agency credit ratings categories for long-term debt is provided in Table CIP-8.

Table CIP-8

Summary Rating Agency Credit Ratings for Long-term Debt			
Investment Attributes	**Fitch IBCA**	**Moody's**	**Standard and Poor's**
Highest Quality	AAA	Aaa	AAA
High Quality	AA	Aa	AA
Favorable Attributes	A	A	A
Medium Quality/Adequate	BBB	Baa	BBB
Speculative Elements	BB	Ba	BB
Predominantly Speculative	B	B	B
Poor Standing	CCC	Caa	CCC
Highly Speculative	CC	Ca	CC
Lowest Rating	C	C	C

Source: Public Finance Criteria for Fitch, IBCA, Moody's Investor Service and Standard and Poor's Corporation

During FY 1995, the District's general obligation debt was downgraded by all three rating agencies to "below-investment-grade" or "junk bond" levels. Since 1998, each rating agency has issued a series of upgrades to the District's bond rating. The upgrades that occurred in 1999 raised the

District's ratings back to "investment-grade" levels. The agencies currently rate the District's long-term, general obligation bonds, as well as surrounding counties and comparable cities. Table CIP-9 provides a summary of the analysis.

Table CIP-9

Summary Rating Agency Credit Ratings of Long-term Debt			
Municipalities	**Fitch IBCA**	**Moody's**	**Standard and Poor's**
District of Columbia	BBB+	Baa1	BBB+
Baltimore	A+	A1	A
New York	A+	A2	A
Philadelphia	A-	Baa1	BBB
Detroit	A	Baa1	A-
San Antonio	AA+	Aa2	AA+
Chicago	AA-	A1	A+

In FY 2001, the District received further upgrades by S&P, Moody's, and Fitch to BBB+, Baa1, and BBB+, respectively, as a result of the continued improvement in the District's financial condition. The upgrades in the bond ratings by these agencies will make the Districts bonds more marketable, hence resulting in a lower cost of capital to the District. As stated previously, one of the District's targets is to have its general obligation bond ratings raised to the "A" level by these rating agencies.

Information considered when assessing the District's credit quality include:

- Economic base
- Financial performance
- Management structure
- Demographics
- Debt burden

Credit ratings are very important to the Capital Program. They affect the District's cost of capital, as well as represent an assessment of the District's financial condition. The cost of capital also plays a role in determining spending affordability. Higher costs for capital financing diminish the ability of the Capital Program to proceed with programmatic objectives. In short, higher costs for capital results in fewer bridges rehabilitated, roofs repaired and facilities renovated. On the other hand, lower costs of capital increase the affordability of such projects.

Major Assumptions

A number of assumptions must be established in order to develop a comprehensive Capital Improvements Plan budget. Due to the unique and changing nature of the District's organizational structure and financial position, it is difficult to precisely forecast revenues, expenditure patterns, costs, and other key financial indicators. Nonetheless, the following primary assumptions were used to develop this CIP:

- The capital expenditure target for the FY 2003 to FY 2008 CIP is based on the assumption that the District can meet its FY 2003 Operating Budget's current and future expenditure targets as established by the CIP.
- The FY 2003 Operating Budget will be sufficient to provide for:
- Lease payments for the District's Master Lease Program used to finance certain equipment projects.
- Paygo capital used to finance certain initiatives with shorter useful lives.
- Debt service on intermediate and long-term debt financing.

DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

CAPITAL IMPROVEMENT PROGRAM

Overview

The District of Columbia Water and Sewer Authority (WASA) is an independent agency that supplies essential retail water and wastewater services to more than 570,000 residents and businesses in the District of Columbia. It also provides wholesale wastewater conveyance and treatment services to more than 1.6 million residents in Prince George's and Montgomery counties in Maryland and Fairfax and Loudoun counties in Virginia. WASA is governed by an 11-member, regional Board of Directors, and is responsible for maintaining and operating the water distribution system, sanitary and combined sewage systems, and Blue Plains, the world's largest advanced wastewater treatment plant.

Since WASA's formation in 1996, it has successfully undertaken significant efforts to improve its financial position and operations, a critical part of which has been the development and implementation of a 10 year, $1.6 billion capital improvement program. This will enable WASA to meet its key goals of providing the best service possible to its retail and wholesale customers, reducing long-term operating costs, and meeting all regulatory requirements program is approximately the same size as last year, with estimated 10 year disbursements totaling $1.61 billion, as described in more detail below.

- *Moody's Investors Service* - "A1" with stable outlook
- *Standard & Poor's* - "A" with positive outlook
- *Fitch IBCA* - "A+" with stable outlook

Capital Financing and Reserve Policies

To secure the lowest practical cost of capital to finance WASA's long-term capital program, WASA's Board has adopted the following capital financing policies that are integrated into WASA's plan:

1. Senior debt service coverage of 140 percent exceeds WASA's bond indenture requirements of 120 percent; and
2. Cash reserves are approximately equivalent to 180 days' operating expenses, about $93 million in FY 2003. Any one-time cash receipts will go directly into cash reserves until they reach the $93 million level.
3. WASA also will finance a portion of its capital program on a pay-go basis from cash balances that exceed the operating reserve level. Pay-go financing reduces the need for long-term debt and ultimately lowers WASA's debt service expenses.
4. WASA will, whenever possible, use the least costly type of financing for capital projects, based on a careful evaluation of WASA's capital and operating requirements and financial position for each year.
5. WASA will attempt to match the total period of debt repayment with the useful lifetimes of the assets financed by any such debt.
6. WASA will finance its capital equipment needs (computer equipment and systems; minor utility equipment such as pumps, motors.) with operating cash or short-term financing instruments with the same or shorter lifetimes as the related assets.

WASA's capital improvement program is financed from the following sources:

- Revenue bonds/commercial paper – 47%
- Payments from wholesale customers – 28%
- Pay-Go financing (transfer from operations) – 11%
- EPA grants – 13%
- Interest income on bond proceeds – 1%

This past year, WASA successfully developed and implemented its commercial paper program for interim financing of the capital program, which allows for greater flexibility to accommodate changes in capital spending and better matching of the timing and size of borrowings to actual capital requirements. In addition, interest rates on commercial paper are typically significantly lower than long-term rates, providing significant near-term debt service savings. The first commercial paper issuance occurred in December 2001. It was very well received, with historic low interest rates ranging from 1.65 to 1.70 percent.

WASA's capital improvement program totals $1.61 billion during FY 2001 – 2010, as described in more detail below. Approximately 24 percent of the program is mandated, while the balance of the program is WASA-initiated.

Wastewater Treatment Program

WASA operates the Blue Plains Advanced Wastewater Treatment Plant, the world's largest advanced wastewater treatment facility. Through Blue Plains, WASA provides services to more than two million people in the Washington metropolitan area. This includes liquid treatment processing to handle both sanitary wastewater flows and peak storm flows, along with solids processing to treat the residual solids removed in treatment units and produced by the liquid treatment process facilities. Blue Plains is rated for an average flow of 370 million gallons per day (MGD). Capital projects in the wastewater treatment area are required to rehabilitate, upgrade or provide new facilities at Blue Plains to ensure that it can reliably meet its National Pollutant Discharge Elimination System (NPDES) permit requirements, produce a consistent, high-quality dewatered solids product for land application, and reduce odors both onsite and in the final product leaving Blue Plains.

Liquids Processing Projects

WASA's 10-year Capital Improvements Plan includes liquids processing projects to upgrade and rehabilitate facilities involved in handling flows for both sanitary and combined sewer systems. These flows move sequentially through the Blue Plains processes to ultimate discharge as treated effluent into the Potomac River. Liquid treatment systems include headworks facilities that screen and pump the wastewater flows, grit facilities that remove sand and grit particles, primary treatment facilities that remove settleable solids by sedimentation, secondary treatment facilities that remove organic pollutants using a biological process, nitrification/denitrification facilities that remove nitrogen using a biological process and effluent filtration, disinfection, and dechlorination facilities.

Solids Processing Projects

Biosolids processing involves reductions in volume along with treatment to meet federal, state, and local requirements, as applicable for the ultimate biosolids disposal method. Treatment is provided by a system of processing facilities that include gravity thickening of primary sludge, floatation thickening of the biological waste sludges produced by the secondary and nitrification/denitrification facilities, digestion of all biosolids streams, and dewatering by centrifuge or belt press and lime stabilization. Dewatered biosolids are conveyed to temporary storage in the Dewatered Sludge Loading Facility or directly to bunkers prior to out loading to tractor-trailers for removal from the plant and ultimate land application. Solids processing facilities are required to produce a biosolids product that can be reused or disposed of in an economical and environmentally acceptable manner.

Following a comprehensive Decision Science planning process, a comprehensive Biosolids management plan was recently developed and adopted by WASA's Board of Directors. This plan includes full biosolids digestion as WASA's primary long-term alternative, with continued land application as long as it is financially advantageous.

Full digestion will be achieved by the construction of nine, four million gallon egg-shaped digesters, sized for the total biosolids production of the plant. Design is scheduled to start in FY 2002, with construction scheduled to begin in late 2004 or early 2005. Other major projects in this area include the upgrade of existing gravity thickening facilities, replacement of biological sludge thickening facilities, and the construction of additional dewatering capacity.

Plant-Wide Projects

Several significant plant-wide projects are included in WASA's capital plan. Two projects address chemical handling and feed systems, which have presented operating and safety concerns to WASA for a number of years. These include replacing the outdated lime feed facilities at Blue Plains with a sodium hydroxide storage and feed facility that began operation in FY 2002. The project to replace the liquid/gaseous chlorine and sulfur dioxide dechlorination process with sodium hypochlorite for disinfection and sodium bisulfite for dechlorination was accelerated by WASA in response to September 11, with an interim process in place by November 2001.

A new process control and computer system will allow for automation of a significant number of processes at Blue Plains, leading to better management of chemical usage and, ultimately, less staffing. In addition, the new system will allow better management of electricity consumption, minimizing peak demand usage and related charges. The system will be implemented in three phases, beginning with the grit chambers, primary and secondary treatment, and dewatering processes, and then moving to nitrification, filtration, disinfection, and solids processing. The construction notice to proceed is anticipated in FY 2002.

As part of the plant-wide capital improvement program, the high priority rehabilitation program has been developed to provide for various process equipment upgrades and replacement, insuring the reliability of critical equipment while the capital improvement program is implemented.

Sanitary Sewer Program

WASA is responsible for wastewater collection and transmission in the District of Columbia, including operation and maintenance of the sanitary sewer system. The District's sanitary, combined and storm sewer system includes 1,800 miles of large interceptor sewer and smaller gravity collection sewers as well as 24 pumping stations. WASA also provides sewer lateral connections from mains to the property lines of homes, government and commercial properties. In addition, WASA maintains the 50-mile long Potomac Interceptor sewer, which provides conveyance of wastewater from areas in Virginia and Maryland to Blue Plains.

The existing sewer system dates to 1810. During the next few years, WASA will be undertaking an evaluation of this system to determine its condition, verify adequate capacity, and develop new capital projects, as appropriate. The FY 2001-2010 capital improvement program includes the initial funding required to perform planning and assessments to develop sanitary sewer capital project needs.

In general, projects in the existing sanitary sewer service area program provide for replacement or rehabilitation of the system as well as extensions to the system for development and growth as needed. As in last year's program, the substantial costs of street repaving, because of the new street repair and restoration regulations, required of WASA and other area utilities by the District are reflected.

Combined Sewer Program

Similar to many other older communities in the Mid-Atlantic, Northeast and Midwest sections, about one-third of the District of Columbia, mostly the downtown and older parts, is served by a combined sewer system. This merges transportation of storm water and wastewater into one system. In wet weather, storm water enters the system as well. If. The system flows over; the excess is discharged to area waterways. This discharge is called combined sewer overflow (CSO). There are 60 permitted CSO outfalls in the District.

As required by the Environmental Protection Agency's (EPA) CSO policy, WASA has recently drafted a Long Term Control Plan (LTCP), which has been submitted to the EPA. As part of this process, we have completed a comprehensive public information program, including the creation of a stakeholder advisory panel and presentation of the plan at public meetings.

The draft LTCP submitted to regulatory agencies this summer recommended projects costing $1.05

billion (in FY 2001 dollars) to substantially reduce CSOs, and the majority of these recommended LTCP projects have not been included in the current Capital Improvement Program. Recommended projects in the draft plan call for construction of tunnels for storage of excess flows during storm events, upgrades of pump stations to facilitate flows and additional treatment capacity at Blue Plains. A public hearing dealing on the draft LTCP will be held early in FY 2002. 03? The final LTCP may include different recommendations for CSO reduction, and is scheduled to be acted on by the board in summer 2002. WASA is in the process of developing a proposed financing plan that will include the identification of outside financing sources, as well as potential alternative rate and fee structures.

WASA's current capital program includes about $122 million for long-term control plan development and rehabilitation of several major pumping stations, including the Main and O Street and Poplar Point stations.

Storm water Program

WASA is responsible for the maintenance of certain public facilities that convey storm water runoff to the Anacostia and Potomac Rivers and other receiving streams. The storm water system includes about 600 miles of storm sewer pipes, catch basins, inlets, special structures, pumping stations and related facilities. The existing storm sewer system was built in the early 1900s and includes a variety of materials. Projects include extensions to the system, relief of certain storm sewers, as well as projects to rehabilitate or replace deteriorated systems.

The District of Columbia received its first storm water permit in April 2000. Subsequently, the District Council enacted legislation that established a storm water administration within WASA to monitor and coordinate permit compliance citywide and established a storm water enterprise fund and separate to finance these activities. In addition, WASA has entered into a memorandum of understanding (MOU) with the Departments of Health and Public Works and the District of Columbia Chief Financial Officer that delineates the administrative and funding responsibilities for this effort. A storm water management fee (authorized by the District of Columbia and which appears on WASA's water and sewer bill) funds the incremental operating requirements of the initial permit period, and it is anticipated that future adjustments of this fee will be required. The permit issued for the period after FY 2003 will likely contain significant new requirements for the storm water system. Currently, WASA is engaged in discussions with the District to determine how these initiatives will be financed. While significant new capital projects are not anticipated at this time, specific future permit requirements and implications will not be known until the new permit is issued.

Water System Program

The water distribution system operated and maintained by WASA includes almost 1,300 miles of water mains (ranging in size from four to 78 inches in diameter), three elevated water storage tanks, five underground water storage reservoirs, and four water-pumping stations. The water distribution system also includes appurtenances necessary for proper system operation, inspection, and repair, such as main line valves at regular intervals to allow flow control, air release valves to prevent air entrapment, blow off valves for draining water mains, check valves to permit flow in one direction only, division valves to allow transfer of water between service areas during emergencies, fire hydrants, and meters.

Water capital projects include electronic security enhancements at all water facilities and rehabilitation/replacement of water pumping stations. They also include rehabilitation of existing storage tanks and reservoirs, and rehabilitation, replacement or extension of the water distribution system, including valve replacements, cross connection and dead end elimination, and water main cleaning and lining. This year's program also reflects increased costs because of the new street repair and restoration regulations required of WASA and other area utilities.

Metering Improvements

Beginning in FY 2002, WASA will undertake a comprehensive meter change-out program, which will replace almost 130,000 meters currently in the system. The meters will automatically transmit consumption data to WASA's computers via cellular technology. The program is critical to achieving IIP goals in the Customer Service Department and reducing meter reading costs, while improving service to our customers.

Washington Aqueduct

WASA's share of capital improvements to the Washington Aqueduct is $201.6 million. As the largest of the three wholesale customers of the Aqueduct, WASA is responsible for approximately 76 percent of the funding for the Aqueduct's capital projects. This percentage is based on WASA's percentage of the Aqueduct's total water sales. During the past three years, the Aqueduct has spent $32 million (WASA's share only) on a variety of projects, including the conversion from chlorine to chloramines for primary disinfection; rehabilitation of the raw water conduits from the Potomac, and various improvements to the McMillan and Dalecarlia Treatment Plants.

Capital Equipment

WASA's 10-year capital equipment budget totals $84 million. As in past years, the largest area of expenditure is in the area of technology infrastructure, representing more than 40 percent of the 10-year plan. Near term plans include upgrading WASA's network environment, implementing systems essential to maintenance management and plant operations, ongoing improvements to the financial management, payroll, and customer information systems, and replacing personal computing equipment. Capital maintenance of pumps, large motors, and other major equipment at Blue Plains and at sewage pumping stations is budgeted at more than $15 million. About 19 percent of disbursements, and 19 percent of the budget is for ongoing fleet upgrades during the next 10 years, other projects included in the capital equipment program include various ongoing small valve, fire hydrant, and catch basin replacements.

FY 2003 Congressional Capital Authority Request

As part of WASA's enabling legislation, Congressional appropriations authority is required before any capital design or construction contract can be entered into. WASA's FY 2003 request totals $292.5 million, and is reflected in the following table:

Table CIP-9
Fiscal Year 2003 Capital Authority Request ($000's)

Program Areas	Capital Authority Request
Blue Plains Wastewater Treatment	213,669
Sewer Collection System	24,539
Combined Sewer System	6,561
Stormwater	5,635
Water System	34,054
Washington Aqueduct (WASA share)	0
Capital Equipment	8,000
Total	**292,458**